

AMENDED IN ASSEMBLY APRIL 20, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2234**

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**Introduced by Assembly Member Steinorth**

February 18, 2016

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An act to amend Section 17144.5 of the Revenue and Taxation Code, relating to taxation.

LEGISLATIVE COUNSEL'S DIGEST

AB 2234, as amended, Steinorth. Personal income taxes: gross income exclusion: qualified principal residence indebtedness.

The Personal Income Tax Law provides for modified conformity to specified provisions of federal income tax law relating to an exclusion of the amount of the discharge of qualified principal residence indebtedness, as defined, from an individual's gross income if that debt is discharged after January 1, 2007, and before January 1, 2014, as provided. *The federal income tax law allows this exclusion for qualified principal residence indebtedness that is discharged before January 1, 2017, or is subject to an arrangement that is entered into and evidenced in writing before January 1, 2017.*

This bill would extend this *state tax exclusion indefinitely to qualified principal residence indebtedness that is discharged before January 1, 2017, or subject to an arrangement that is entered into and evidenced in writing before January 1, 2017*, and would also apply this exclusion retroactively to discharges of indebtedness that occurred on or after January 1, 2014, and before January 1, 2016. The bill would also provide that no penalties or interest with respect to the discharge of qualified principal residence indebtedness during the 2014 and 2015 taxable years

would be due, and would make legislative findings and declarations regarding the public purpose served by the bill.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
 State-mandated local program: no.

*The people of the State of California do enact as follows:*

1 SECTION 1. Section 17144.5 of the Revenue and Taxation  
 2 Code is amended to read:  
 3 17144.5. (a) ~~(1)~~Section 108(a)(1)(E) of the Internal Revenue  
 4 Code, is modified to provide that the amount excluded from gross  
 5 income shall not exceed \$500,000 (\$250,000 in the case of a  
 6 married individual filing a separate return).  
 7 ~~(2) Section 108(a)(1)(E) of the Internal Revenue Code, is~~  
 8 ~~modified to delete “which is discharged before January 1, 2015.”~~  
 9 (b) Section 108(h)(2) of the Internal Revenue Code, relating to  
 10 qualified principal residence indebtedness, is modified by  
 11 substituting the phrase “(within the meaning of section  
 12 163(h)(3)(B), applied by substituting ‘\$800,000 (\$400,000’ for  
 13 ‘\$1,000,000 (\$500,000’ in clause (ii) thereof)” for the phrase  
 14 “(within the meaning of section 163(h)(3)(B), applied by  
 15 substituting ‘\$2,000,000 (\$1,000,000’ for ‘\$1,000,000 (\$500,000’  
 16 in clause (ii) thereof)” contained therein.  
 17 (c) This section shall apply to discharges of indebtedness  
 18 occurring on or after January 1, 2007, and, notwithstanding any  
 19 other law to the contrary, no penalties or interest shall be due with  
 20 respect to the discharge of qualified principal residence  
 21 indebtedness during the ~~2007 or 2009~~ 2007, 2009, or 2013 taxable  
 22 year regardless of whether or not the taxpayer reports the discharge  
 23 on his or her return for the ~~2007 or 2009~~ 2007, 2009, or 2013  
 24 taxable year.  
 25 ~~(d) The amendments made by Section 202 of the American~~  
 26 ~~Taxpayer Relief Act of 2012 (Public Law 112-240) to Section 108~~  
 27 ~~of the Internal Revenue Code shall apply.~~  
 28 ~~(e) The changes made to this section by Chapter 152 of the~~  
 29 ~~Statutes of 2014 shall apply to discharges of indebtedness that~~  
 30 ~~occur on or after January 1, 2013, and before January 1, 2014, and,~~  
 31 ~~notwithstanding any other law, no penalties or interest shall be~~  
 32 ~~due with respect to the discharge of qualified principal residence~~  
 33 ~~indebtedness during the 2013 taxable year, regardless of whether~~

1 the taxpayer reports the discharge on his or her income tax return  
2 for the 2013 taxable year.

3 ~~(f) The changes made to this section by the act adding this~~  
4 ~~subdivision shall apply to discharges of indebtedness that occur~~  
5 ~~on or after January 1, 2014, and notwithstanding any other law,~~  
6 ~~no penalties or interest shall be due with respect to the discharge~~  
7 ~~of qualified principal residence indebtedness during the 2014 or~~  
8 ~~2015 taxable year, regardless of whether the taxpayer reports the~~  
9 ~~discharge on his or her income tax return for the 2014 or 2015~~  
10 ~~taxable year.~~

11 *(d) (1) The amendments made by Section 151 of the federal*  
12 *Protecting Americans from Tax Hikes Act of 2015 (Division Q of*  
13 *Public Law 114-113) to Section 108 of the Internal Revenue Code,*  
14 *relating to income from discharge of indebtedness, shall apply to*  
15 *taxable years beginning on or after January 1, 2014.*

16 *(2) Notwithstanding any other law, no penalties or interest shall*  
17 *be due with respect to the discharge of qualified principal residence*  
18 *indebtedness during the 2014 or 2015 taxable year, regardless of*  
19 *whether the taxpayer reports the discharge on his or her income*  
20 *tax return for the 2014 or 2015 taxable year.*

21 SEC. 2. The Legislature finds and declares that the amendments  
22 made by this act and the retroactive application of the exclusion  
23 for qualified principal residence indebtedness that is discharged  
24 on or after January 1, 2014, and before January 1, 2016, are  
25 necessary for the public purpose of preventing undue hardship to  
26 taxpayers whose qualified principal residence indebtedness was  
27 discharged between those dates, and do not constitute a gift of  
28 public funds within the meaning of Section 6 of Article XVI of  
29 the California Constitution.